BEBR

FACULTY WORKING
PAPER NO. 768

Organization and Personnel for State Sales Tax Administration

John F. Due

College of Commerce and Business Administration
Bureau of Economic and Business Research
University of Illinois, Urbana-Champaign

BEBR

FACULTY WORKING PAPER NO. 768

College of Commerce and Business Administration

University of Illinois at Urbana-Champaign

April 1981

Organization and Personnel for State
Sales Tax Administration

John F. Due, Professor
Department of Economics

Abstract

The purpose of this paper is to examine the structure of the administrative organizations for state sales tax operation, the systems of selection of personnel, and the qualifications and salary levels of compliance personnel and auditors. Some comparisons are made with the situation in 1970. In most states tax administration is under the jurisdiction of a director or commissioner appointed by the governor. There has been a definite trend toward the functional type organization within the tax administration, replacing the type-of-tax organization. There has been some upgrading in qualifications for compliance personnel and auditors. But the adequacy of the audit staffs has on the whole not increased. Salary levels appear to have roughly kept up with inflation.

ORGANIZATION AND PERSONNEL FOR STATE SALES TAX ADMINISTRATION

This paper is designed to summarize the organizational structure and personnel system for state sales tax administration.

General Structure for Tax Administration

State agencies for tax administration may be headed by a person or by a commission, either appointed or elected.

Appointed Commissioner or Commission. By far the most common organizational structure for revenue administration is that of a revenue or taxation department headed by a commissioner or director. The titles vary; the term commissioner of revenue is used in eleven states, mostly in the South (Alabama, Alaska, Connecticut (Revenue Services), Georgia, Indiana, Kentucky, Massachusetts, Michigan, New Hampshire, New Mexico (Taxation and Revenue), and Tennessee); commissioner of taxation (or taxes) or tax commissioner in seven states (Minnesota, Nebraska, New York (commissioner of taxation and finance), Ohio, Vermont, Virginia, and West Virginia); director of revenue in eight states (Arizona, Delaware, Illinois, Iowa, Missouri, Montana, Oregon, Washington), and executive director in Colorado and Florida; director of taxation in New Jersey and Hawaii; director of finances and administration in Arkansas; tax assessor in Maine; tax administrator in Rhode Island, secretary of revenue in Kansas, Louisiana, North Carolina, Pennsylvania, South Dakota, and Wisconsin. Differences in titles have little or no significance relative to functions.

Most commonly, the commissioner is appointed by the governor and serves at the governor's pleasure. Thirty-seven states now use this structure, with

only minor variations. Commonly, the person appointed as commissioner has had only limited experience in the tax field; he is rarely an expert in taxation but primarily an administrator and political liaison man, brought in from outside the state government with a major task of implementing the governor's policies in tax administration. Though many are lawyers, there are exceptions. In several states, Arizona, Colorado, Kentucky, Louisiana in recent years, Maine, New Jersey, New Mexico, Vermont, Virginia, and at times Minnesota, for examples, the commissioners have in practice become non-political appointments, regarded strictly as administrators, persons being kept in the position regardless of changes in a state administration. When Commissioner Morrissett retired in Virginia in 1970, he had completed forty-three years service as commissioner. Apart from these career situations, the competency of the commissioners varies widely, from political hacks who give little attention to the job to persons with expert background in taxation or administration who bring remarkable improvements over a short period of time. In at least three instances in the last two decades (Iowa, Virginia, and Arizona), an experienced man has been brought in from outside the state as commissioner--a rare occurrence in American state government.

In two states, Michigan and Rhode Island, the head of the revenue service is a civil service appointee, and thus a career person who usually has risen through the ranks. In Michigan the commissioner, formerly directly responsible to the governor, is now responsible to the state treasurer; in Rhode Island revenue administration is included in the state department of administration.

Seven states retain the old appointive-commission system of organization for tax administration. They are Idaho (four), Mississippi (three), Nevada (seven), Oklahoma (three, appointed for six-year terms), South Carolina

(three), Utah (four), and Wyoming (three). There are commissions in Massachusetts and New York also, but the chairman is in effect the tax administrator. The usual rule is for the commission to appoint a secretary or executive director who serves as the principal administrator. Some of these are long time career personnel. In Utah the chief auditor is in effect the executive director. Idaho is an exception; each commissioner serves as the director of particular taxes, with no executive director. The net effect of the commission system, especially with long and staggered terms, is to insulate somewhat the operation of the administration from the control of the governor, even if he appoints the members of the commission.

Elected Officials. In four states tax administration is under the jurisdiction of an elected official or officials. California has an elected board, the five person State Board of Equalization, with the state controller an ex officio member (himself elected) and the other four elected from districts. In Maryland and Texas, tax administration is under the jurisdiction of the comptroller, an elected official. In North Dakota the tax commissioner is elected, but persons have served for very long periods. The recent commissioner was elected to Congress in 1980.

Trends. Over several decades, the trend has been slowly toward a single commissioner appointed by the governor; Iowa, Washington, Arizona, Montana, New Hampshire, and Oregon have replaced commissions by a single revenue director, and Florida transferred revenue administration from the jurisdiction of the comptroller to an appointed official. The only one to move the opposite way was Idaho, which transferred the administrative functions from a single tax collector to the state tax commission.

> A strong case can be made for a system with a single official responsible for all tax administration, the person either appointed by the governor or selected on a civil service basis with competency for the position. The commission system divides responsibility and is generally unsatisfactory for any administrative activity. Election of commissioners is particularly undesirable—as is selection of any purely administrative officials. In addition, concentration of responsibility for state administration in the hands of the governor is usually essential for the best administration. But in the end the results depend more on the persons than the organizational structure. California, with the worst possible type of administrative structure, has one of the best, if not the best, sales tax administrations, and some states with appointive commissioners have weak administration. Improvement in administration requires strong commitment by the governor to improve administration, appointment of an energetic and competent tax commissioner,

and provision of adequate financial support by the legislature.

South Dakota, and earlier, New Mexico and Iowa are good examples of states in which governors have brought great improvements in tax administration.

Organizational Structure for Sales Tax Administration

The most significant change that has occurred in sales tax administration over the last two decades has been the shift from the type-of-tax-organizational structure to the functional one, in which either there are no tax divisions at all, or if they exist, they do not have their own field forces.

Completely Functional Organization. In fourteen states, there is no sales tax division or unit at all; the organization is entirely functional, the units, such as audit, handling all taxes.[1] A typical organizational chart for this system is reproduced in Figure 1. Four additional states, while having an overall functional organization, do have separate sales tax units in subordinate divisions. Idaho, Utah and Arizona have separate sales tax audit sections, and Maine a sales tax unit in the tax division.

1. Dates indicate year of change to functional: Colorado, Connecticut (1979); Florida (1978); Hawaii, Illinois, Massachusetts, Missouri, Nebraska, New Jersey, New Mexico, New York (1972-79); Pennsylvania (1978), Rhode Island and Wisconsin. New York does have a sales tax section in office audit, and Rhode Island an excise division with very minor functions.

Another fourteen states have a sales tax division, under a director, but without a field force. The functions of the division are typically interpretative, although some extend to office audit (Alabama, Kansas) a role in audit selection (Georgia, Virginia) and audit review (Kentucky, North Carolina). Georgia and Virginia have transferred the compliance work from the sales tax unit in the last decade, and Minnesota the audit work.

Partially Functional Field Operations. Several states are using hybrid systems, at least at the moment, although some are considering further functionalization. In Oklahoma, Tennessee and West Virginia, the sales tax divisions have their own audit staffs, the most significant arm of field operations. In Indiana, South Dakota, and Wyoming the reverse pattern is found; the sales tax division has compliance but not audit personnel.

NonFunctional Organization. Only four states, compared to 12 in 1970, retain the old type-of-tax organization: Maryland, Ohio (which has limited functionalization of compliance in the two major cities), North Dakota (which tried the functional organization and abandoned it), and South Carolina. But in three states the sales tax dominates the operation. In California, income taxes are administered by an agency distinct from the Board of Equalization; the sales tax operation is integrated with that of related taxes in the Business Tax Division, in which the sales tax is the principal element. Nevada has a functional organization, but with no income tax, and the sales tax dominates. In Washington, with no income tax, the sales tax is integrated with the closely related business and occupation tax.

The trend toward functionalization has resulted from several sources: the desire to lessen nuisance to business firms arising from visits from two sets of auditors; the belief that better use can be made of the time

of field personnel; the recommendations of public administration consulting firms or other outside groups that have favored the functional organization, and acceptance of the "trend." In several states, such as Wisconsin, the sales tax was introduced in a situation with an effective income tax administration and thus grafted onto it.

It is difficult to assess the net gain or loss. There are clearly some advantages of functionalization along the lines indicated. But no longer is any one person clearly directly responsible for the administration of the sales tax. Where a sales tax division does exist with the functional form, the director often has little power, and coordination with the functional units is not always good. The relationship seems to vary from excellent to very poor--on the basis of information gained from interviews. Several state officials expressed the view that the loss of specialized responsibility was a definite disadvantage, but in most states the functional form was regarded as operating effectively. A major part of the case for functional organization rests on the argument for integrated audit, but in fact audit is not in fact always integrated.

An incidental disadvantage of the functional form is that comparing sales tax administrative cost and adequacy of audit staffs among the states has become difficult.

Centralization Versus Regional Control

A question of importance on administrative structure is: To what extent should operations be centralized in headquarters or decentralized through the use of regional offices and assignment of personnel to certain areas? States cannot be classified into a few clear-cut categories based on centralization.

Centralized Systems. Centralized control at one extreme is found in Rhode Island and Maryland, where virtually all operations are centralized in headquarters. There are no regional offices, and no field personnel are assigned to particular areas. Arizona has only a sub-office in Tucson. West Virginia and Wyoming have no district offices. The first assigns compliance personnel and auditors to areas, but they are supervised from headquarters. North Dakota has two offices for audit only.

Regional Offices but Centralized Control. The most common pattern involves the use of district offices, usually under the jurisdiction of a senior auditor,[1] for supervision of enforcement and audit personnel, but with basic control over most enforcement and audit in headquarters. The enforcement personnel are usually assigned to a specific county or counties or area within a city, whereas the auditors work usually over the entire district. In Florida, North Carolina, and Texas, there are two sets of district offices, a relatively small number for audit, a larger number of enforcement. Illinois and New York have an upper layer of two regional offices, with jurisdiction over district offices. Records kept in the district offices are limited in most states to a list of vendors and current lists of delinquents, plus records of audits made, although, in many states the District Office now has computer terminals connecting them with headquarters. In almost all instances (Maine, Colorado and Wyoming being exceptions) the offices, plus additional branches in many states, are open to the public for information. In many states, the offices handle all taxes.

Data on district offices are given in Table 1.

1. In a few, the director has a management or enforcement background.

Table 1
District Offices

State	District Offices	Special Features
Alabama	9	in field division--all functions
Arizona	1	Tucson only
Arkansas	5	headed by auditor
California	22	key role in audit selection
Colorado	10	enforcement personnel only
Connecticut	5	audit personnel only
Florida	21 enforcement 6 audit	greater role than in many states
Georgia	9	
Hawaii	4	complete decentralization; select audits, etc.
Idaho	6	compliance management
Illinois	14	2 regions; Chicago and downstate (Springfield)
Indiana	13	auditors assigned to
Iowa	13	
Kansas	2	enforcement personnel only assigned
Kentucky	11	
Louisiana	8	plus 18 branches; mainly taxpayer assistance
Maine	5	for auditors only; compliance personnel assigned to counties but not to district offices. Not open to public.
Maryland	0	some auditors live outside Baltimore
Massachusetts	8	
Michigan	9	plus 14 branches. Mostly taxpayer assistance and auditors work space
Minnesota	6 regional	plus 8 district offices, audit and compliance personnel assigned to
Mississippi	9	high degree of autonomy in audit and compliance
Missouri	5	supervise audits, compliance
Nebraska	5	auditors and compliance personnel assigned to
Nevada	3	auditors and compliance personnel assigned to
New Jersey	6	auditors and compliance personnel assigned to
New Mexico	6	auditors and compliance personnel assigned to
New York	12	plus 6 branches (two regions: New York City and upstate)
North Carolina	64 16	collections offices audit districts
North Dakota	2	audit personnel only
Ohio	9	
Oklahoma	7	compliance personnel only
Pennsylvania	26	all functions, all taxes
Rhode Island	0	
South Carolina	5	all functions, and accept returns
South Dakota	2	limited functions; headquarters for personnel
Tennessee	7	all taxes
Texas	50 enforcement 14 audit	personnel assigned to
Utah	5	audit only
Vermont		
Virginia	8	substantial autonomy to district offices; head is from audit
Washington	16	plus 58 suboffices; control from Olympia
West Virginia	0	auditors and compliance personnel to areas
Wisconsin	3	plus branches, both functions
Wyoming	0	field men assigned to districts

Of these states, Florida, North Carolina, and Virginia place relatively greater authority in the district offices for audit selection and review and enforcement initiative than the other states and provide more information to the district offices about taxpayer accounts.

Decentralized States. Three states place primary responsibility for audit and enforcement on the district offices. In Mississippi, the district offices select accounts for audit and review the audits and follow their own procedures, on their own initiative, on delinquents, subject to general guide rules established in headquarters. There are nine district offices, with field men assigned to particular counties.

California has 22 district offices headed by a district tax administrator. The district office selects the individual accounts for audit from the printouts of eligible firms sent from headquarters and in conformity with the policies established. Initial action on delinquents is taken in Sacramento, but final action against those not paying after notices is largely left to the district office.

Hawaii has the most completely decentralized system. No records of taxpayers are kept in headquarters at all; all records are kept in the district offices, of which there are four; audit selection and control of delinquency rests with the district offices, subject to general guidelines.

California cites these advantages of decentralization: (1) personnel can live at home, (2) travel time is kept to a minimum, (3) close contact can be maintained with the retailers, (4) information can be provided locally, and (5) personnel can gain a knowledge of local conditions.

On the other hand, decentralization makes attainment of uniform policies more difficult, and in smaller states it may result in ineffective use of personnel and in the inability to use data processing equipment effectively. It may invite local favoritism if not outright dishonesty. Knowing retailers and their financial standing and being aware of the opening of new stores and the closing of old ones without question facilitate certain aspects of enforcement, but they may also result in friendship and local influence that prevent uniform treatment of all taxpayers.

The potential danger of less efficient use of the best available personnel and equipment particularly suggests that decentralization should not be carried too far, especially in audit. For most states, it

would appear that decentralization should be limited to establishing district offices to which compliance personnel (as distinguished from auditors) are assigned. Notices of delinquency, bad checks, and other collection problems would be sent to the regional supervisor who would assign the work to the appropriate persons.

There is merit in having the district offices open to the public, with personnel readily available for taxpayers who have questions, although widespread use of 800 numbers lessen the necessity for this. Ready accessibility of tax information is of utmost importance for successful operation of the tax.

A strong argument can be made for placing all audit selection, review, and control over the work of the auditors in the audit unit at headquarters and not in the regional offices, except in a few large states in which a small number of audit districts may prove desirable. Audit and delinquency control are basically very different functions. If the district supervisor has responsibility for audit, the requirements and salary for the post must be much higher than otherwise. Uniformity in audit policy is imperative. Top quality audit personnel are usually scarce and should be available for use wherever they are most needed. Under this policy, the district supervisor would have no jurisdiction over auditors, who would receive all instructions from headquarters and make all reports directly to headquarters.

Headquarters and Supervisory Personnel

Sales tax personnel includes several groups in addition to the field force subsequently noted.

Regional Supervisors or District Managers. In the states with a decentralized organization, regional supervisors occupy a key position in

the organization. These persons typically have had long experience with the sales tax divisions, often as auditors, some in compliance, or were hired for these positions on the basis of adequate business experience. In some states these managers have no jurisdiction over auditors.

Supervising and Review Auditors in Headquarters. The chief of the audit unit occupies a key position in the larger states, assisting in the evaluation of prospective new employees, supervising the work of the auditors, controlling the program of audit selection, and reviewing major audits. In the smaller states the work may be performed by a senior auditor who is not designated as the chief of a separate unit.

Most states have several review auditors, senior auditors with long experience, who review all field audits. In small states the chief auditor does all review work.

Pre-audit Personnel. Personnel used for the "pre-audit" of returns check arithmetic, the completeness of returns, and in some instances deductions. In a few states, as noted, this pre-audit work is merged with cursory internal audit for selection of accounts for field audit.

Internal Auditors. A few states make a systematic office review of all returns to select those that appear to warrant field audit. In some, in-training auditors are used for this type of work, plus some senior audit personnel, and individuals who for one reason or another are not currently suitable for field work. In other states, this work is performed by senior clerical personnel, who, though they are not auditors, have learned to spot returns that are likely to be in error. There has been a tendency in the last decade to establish a separate office-auditor classification distinct from field auditor, with lesser qualifications and lower salaries. Iowa, Kansas, New York, Oklahoma, Washington, and Wisconsin are examples.

Technical Personnel. In a few of the larger states, legal, programming, tabulation, statistical, and other technical personnel are assigned directly to the sales tax unit. More frequently these persons are assigned to the entire revenue department, or even to a general administrative service unit. In most states, legal personnel assigned to the revenue department are technically on the staff of the attorney general.

Selection of Personnel

The great majority of states provide for selection of revenue personnel, except at top levels, via some type of civil service merit system. There are, however, exceptions, and the exact coverage and procedures differ.

NonCivil Service States. Seven states--Arkansas, Mississippi, Missouri, North Carolina, North Dakota, South Carolina and Texas, do not have civil service systems. In Pennsylvania and Indiana, only a portion of revenue personnel are covered by the systems. The actual situations differ among these states. All have some type of classification of personnel and selection system administered by the revenue department. In the Carolinas, Mississippi, Texas, and North Dakota, there has been relative permanence of employees, but there is no assurance of job security, and employees may be fired if the state administration changes. In some of these states there has been at least limited political influence in hiring of personnel. The more technical personnel, such as auditors, are more likely to be retained than other types. Missouri has been notorious for replacement of personnel on a political basis, although some have been retained. In Indiana, auditors are covered by civil service, but the remainder of the personnel have not been, and with considerable turnover--although the governorship has been in Republican hands for a long period. In Pennsylvania, only audit and data processing personnel are covered, and there has been substantial turnover of other personnel.

In the last two decades the trend has been toward greater use of merit systems. Ten of the thirty-three sales tax states in 1962 had no merit systems, formal or informal. The disadvantages of a strictly patronage system for personnel are so obvious that the states have moved away from it in the revenue area, either by law or practice, in large degree. At its worst, the patronage system involves hiring persons on the basis of political influence regardless of qualifications, and discharge of persons who may have become qualified simply because the party in power in the state has changed. Such a system is intolerable for as technical a function as tax administration.

Recent U.S. Supreme Court decisions have raised serious question as to the right of a state to fire persons in nonpolicy positions simply because they belong to a particular political party; if this decision is applied to state revenue personnel, all states may be forced to civil service systems or the equivalent.

The Civil Service--Merit System States

The remainder of the states employ civil service or merit personnel systems. Typically, all except top level policy-making personnel are covered. To be hired, persons must demonstrate qualifications on the evidence of their education and employment records and/or examinations, promotions are made on an established schedule, and discharge is possible only for cause. The systems vary slightly, however, in coverage and procedures.

Coverage. The typical system covers all revenue personnel except the Director and the Deputy or Assistant Director (s). In Virginia, only the Director is not covered; in Rhode Island and Michigan even the

Directors of Revenue are covered. There are, however, seven states in which the division heads (as well as the director and deputies) are not subject: Connecticut, Florida, Kansas, Louisiana, Minnesota, New Mexico, and Wisconsin, although in practice these persons usually are retained when the state administration changes. Usually the top personnel are excluded on the grounds that they are in part policy making officials, one of whose functions is to implement the governor's policies in matters relating to administration of taxes. There is grave doubt, however, that the exemption should carry as far down as heads of divisions, essentially technical posts requiring persons with long experience in the work.

The discretion allowed the revenue department in selecting from the lists provided by the state personnel agency varies widely. In some states Revenue must select from the top three (e.g., Alabama, Utah, Louisiana), in a number from the top 5;[1] in Maine from the top six. In several states, Revenue can reject all of the names,[2] but in others, e.g., Maine, Vermont, they cannot. In a few states Revenue has been given most of the authority for establishing examinations, lists of eligibles, and recruiting, subject to the general rules of the state legislation--Oklahoma, Washington, California, for example. By contrast, others such as New Jersey find their recruiting seriously hampered by the state personnel agency. Some states, e.g., Alabama, Maine, Nebraska, require examinations; others, such as Arizona and Pennsylvania, establish qualifications on the basis of the education and training record without examination. Several states--e.g., Arkansas, California, Louisiana, North Dakota, Texas--do substantial

1. Connecticut, Idaho, Kansas, Maryland, Oklahoma, Tennessee, Vermont, Wisconsin, among others.

2. Georgia, Iowa, Kansas, Nevada, South Dakota.

recruiting for auditors at the universities and colleges, as does Wisconsin, which is now limited to in-state schools only. Wisconsin formerly recruited out of state for minority personnel.

The persons hired are given probationary status, usually for six months, and the revenue agency is free to let them go during probation if their work is unsatisfactory. Thereafter they can be fired only for cause, with appeal to designated bodies. Promotions are usually from within, based on performance, length of service, and often, examinations.

Obviously the merit system has some limitations; a certain amount of dead wood accumulates that is hard to eliminate. But effective administration can minimize this problem, and in time the incompetents can be eased into other jobs or retired.

Field Forces

Successful sales tax operation depends to a great extent on the field forces. Their work will be described in detail in other working papers, but at this point some preliminary comment is necessary concerning the two distinct field functions--enforcement (compliance) and audit.

The enforcement staff provides information to taxpayers and ensures that firms not filing and paying comply with the law. This involves contact with delinquents, action to enforce payment when other methods fail, collection of tax from firms that file but do not pay in full, collection on

bad checks, verification to ensure that licenses are obtained, and related activities. Titles for personnel assigned to enforcement work vary.[1] The term "compliance officer" will be employed in this study. A few states make a distinction between collection personnel, who take action against hard-core delinquents, and other enforcement personnel.

The audit staff examines taxpayer returns, accounts, and records to ensure that the correct amount of tax was reported.

Single or Dual Field Forces

One decision concerning the organization of the field force is whether a single force should handle enforcement and audit work, or whether each function should have a separate force.

Single Field Force. Six states, Alabama, Hawaii, Maine, Minnesota, Ohio, and Vermont, group all field personnel (except regional supervisors) into one class, but often with segregation within the class. The personnel in the junior levels, plus some senior ones who for some reason are no longer able to do field audit work, perform the enforcement functions. In Georgia, Grade I auditors do the enforcement work; there is a small separate collection group.

In these states, all persons hired typically have the minimum background regarded as necessary, though in practice they have less accounting background than those hired as auditors in other states for audit work, even if much of the work initially is enforcement. The single field force system may also

1. There are almost as many titles as states: revenue collection officer (Illinois), collection and enforcement officer (New Mexico), field collector (Arizona, Arkansas), revenue compliance officer (Washington), tax compliance agent (New York), revenue agent (Connecticut, Nebraska, Florida, South Dakota), field agent (West Virginia), field inspector (North Dakota), field examiner (Indiana), field investigator (Pennsylvania), investigator (New Jersey), tax compliance representative (California), revenue examiner (Maryland), field representative (Kansas, Kentucky, Mississippi, Virginia, Wyoming), field men (Missouri), revenue deputy (Louisiana), revenue representative (Iowa), enforcement officer (Colorado, Texas), tax field agent (Georgia), revenue officer (Idaho, North Carolina, Rhode Island, Tennessee), examiner (Massachusetts), tax collection representative (Michigan), revenue officer (Nevada), tax collector (South Carolina), tax representative (Wisconsin).

minimize travel, especially in more remote areas, allow optimal overall use of time, and ensure close integration of the two types of work. If an investigation indicates need for an audit, the latter can be made by the same person. A single force suffers, however, from inevitable limitations. The time of competent auditors is too valuable to devote to enforcement, and the backgrounds required are not entirely the same.

Dual Field Force. Other sales tax states use dual systems. The auditors, with rare exceptions, do no enforcement work whatsoever, and in most states the investigators perform nothing that could actually be called audit. In the past compliance personnel did limited simple audit work, but the trend is away from this practice.

The numbers of compliance personnel and auditors are shown in tables 2 and 5.

Qualifications for Compliance Personnel

There has been substantial shift in emphasis over the last two decades in the background of persons hired for compliance work. Typically in the past, the requirements, if any, for appointment, were high school graduation and some experience, typically in retailing. The persons hired were often older, some who had lost jobs in retailing or given up their own small stores. This tradition still exists in some states, as for example, Missouri. But the trend has been toward requiring or preferring college education and/or a relatively high level of experience, particularly in collections work.

States Emphasizing College Degrees. At least six states require college degrees, typically in business administration, with some work in accountancy--Kentucky, Nebraska, New Jersey, Rhode Island, South Carolina, and South Dakota. Strong preference for a degree is expressed in North Dakota and Wisconsin. The aim in these states is that younger persons will be hired, with a career in this work.

The majority of states require either a college degree (business administration preferred) or several years experience, preferably in investigation or collections work.[1] A number of the persons hired do have college degrees--about half of the new employees in Illinois, for example. These states tend to get two groups, younger persons directly out of college, and older ones with substantial business experience.

Other States. A second group requires experience, typically without college work, some requiring background in accounting. Indiana stresses "self-starter" personal characteristics.[2]

Salary Ranges. Table 2 shows salary ranges for compliance personnel, for 1970 and 1979-81. The beginning salaries range, in most states, is between $700 and $1100 a month. At the senior levels they range over a much wider span, but half are between $1100 and $1400. These are not high paying jobs to attract and retain university graduates. Rough comparison with the 1970 figures shows that with some exceptions the pay has not kept up with inflation; the cost of living index roughly doubled between 1970 and 1980. It is not possible to make a more precise comparison without detailed data of numbers of persons at various salary grades.

Qualifications for Auditors

Primary qualifications for auditors are shown in table 3 .

The states fall into two major groups on qualifications for auditors:

Twenty-two of the sales tax states, almost or half, require a college or university degree, some requiring a degree in accountancy, others a specified minimum amount of work in accountancy, ranging from 12 (Illinois,

---

1. California, Florida, Georgia, Illinois, Iowa, Louisiana, North Carolina, Ohio, Tennessee, Utah, Washington, West Virginia, Wisconsin.

2. Colorado, Idaho, Indiana, Maine, Maryland, Michigan, Mississippi, Nevada, New Mexico, Pennsylvania.

Table 2
Numbers and Monthly Salaries of Field Representatives, 1970 and 1979-81
Dollars

umber	State	Salary Range 1970	1979-81 Beginning	Senior	Supervisory
35[1]	Alabama[1]	477-627	1100-1330		
17	Arizona	518-630	903-1152	1029-1318	
13	Arkansas	359-680	817	1255	
28	California	717-959	1132-1449	1482-1782	1482-2395
34	Colorado	--	1277-1712	1408-1888	1630-2185
9	Connecticut	762-1045	1115-1347	1229-1474	1456-1771
48[4]	Florida	488-793	806-1048	896-1175	
02	Georgia	591-783	759-1064	822-1166	973-1403
--	Hawaii	555-1153	--	--	
13[2]	Idaho	610-742	1014-1232	1233-1499	
54[3]	Illinois	--	979-1449	1105-2160	1638-2442
35	Indiana	400-450	716-	-900	
72[3]	Iowa	527-859	846-972	1156-1200	to 1418
29[2]	Kansas	463-584	831-	868-1039	948-1186
97[3]	Kentucky	480-906	710-	782-	951-
91	Louisiana	420-1050	734-1222	884-1505	1068-2031
6[1]	Maine	535-977	898-1135	957-1219	
19[5]	Maryland	604-885	912-1272	1121-1584	
68	Massachusetts	633-832	--		
91	Michigan	696-964	--		
00[1]	Minnesota[1]	569-1112	999-1241	1103-1366	
32	Mississippi	560-930	810-1245	875-1375	100-1590
15	Missouri	425-575	748-990		
22[2]	Nebraska	550-650	835-575	884-1039	1328-1392
14	Nevada	733-841	1200-	-1653	
50[3]	New Jersey	450-916	952-1416	1215-1898	1628-2198
60[e]	New Mexico	360-785	751-1056	787-1109	958-1719
49[3]	New York	721-833	975-1156	1094-1294	
28[3]	North Carolina	596-1260	981-1289	1231-1969	
1[6]	North Dakota	525-739	930-	-1752	1186-1752
20[1]	Ohio	499-890	794-1061	856-1180	
55[3]	Oklahoma	310-685	--	--	
78[3]	Pennsylvania	460-617	833-1033	925-1183	1083-1408
20[3]	Rhode Island	455-540	1015-1191	1142-1338	1338-1509
37	South Carolina	548-734	968-	-1372	
18	South Dakota	500-600	1062-1592	1154-1744	1365-2093
80[2]	Tennessee	445-560	885-1223	965-1318	1045-1411
21	Texas	610-768	1051-1324	1122-1415	1462-1841
8	Utah	471-700	1001-	1231-	1799-
0	Vermont	548-734	--		
33[1]	Virginia	560-732	876	916-1429	1140-1558
65	Washington	580-1041	1032-1321	1197-1692	1449-1867
35	West Virginia	485-570	689-1116	792-1293	
00[3]	Wisconsin	692-917	1128-1500	1310-1808	1421-1989
14	Wyoming	571-762	12260	-1902	
	District of Columbia	546-992			

. One type of field personnel only. Salary shown is for beginning grade.
. Adjusted for time devoted to sales tax. 3. Total, not allocable by type of tax.
. Plus 62 in office. 5. Mostly telephone work. 6. Plus 6 telephone personnel.

Table 3
Qualifications for Auditors 1979-80

Alabama	degree[1] or experience
Arizona	degree and 6 mo. experience, or 12 hrs accy and 1 yr exp.
Arkansas	degree with 24 hrs accy
California	degree in accy or equivalent
Colorado	degree with 18 hrs accy plus 6 in related areas
Connecticut	degree in accy or degree and 1 yr exp., or 5 years exp.
Florida	degree with 15 hrs accy; can substitute experience
Georgia	degree in accy or equivalent
Hawaii	degree in accy
Idaho	accy background, from college or experience; exam required
Illinois	degree with 12 hrs accy
Indiana	college level knowledge of accy
Iowa	degree or experience but must have 12 hrs accy
Kansas	degree with accy
Kentucky	degree in accy
Louisiana	degree, 24 hrs accy
Maine	degree with some accy, or experience
Maryland	some accy, from college or experience
Massachusetts	degree with accy
Michigan	degree in accy or bus. adm.
Minnesota	3 to 9 hrs accy training
Mississippi	degree in accy, plus exam
Missouri	degree with 12 hrs accy; accept experience
Nebraska	degree, 24 hrs accy
Nevada	degree and/or experience
New Jersey	degree with 18 hrs accy plus 1 hr exp.; subs. experience or courses for d
New Mexico	degree with 15 hrs accy or experience
New York	degree, 24 hrs accy
North Carolina	degree in accy or bus. adm. with 12 hrs accy or exp.
North Dakota	degree with accy or experience
Ohio	accy from courses or experience
Oklahoma	degree with 6 hrs accy or experience
Pennsylvania	one year experience plus 6 hrs accy beyond high school
Rhode Island	degree in accy
South Carolina	degree in bus. adm. with 12 hrs accy
South Dakota	degree in accy
Tennessee	high school plus 4 yrs experience; can subs. college
Texas	degree in accy
Utah	degree plus experience
Vermont	degree in accy or bus. adm. plus 2 years exp.
Virginia	degree plus 2 yrs exp., or longer experience
Washington	degree in accy or bus. adm.
West Virginia	degree in accy
Wisconsin	degree in accy
Wyoming	degree or 3 yrs exp.

1. Degree refers to college or university degree.

South Carolina) to 24 in a number of states. Most of these states seek young college graduates and report that they are able to get them--California, Colorado, Hawaii, Illinois, Kansas, Kentucky, Mississippi, Nebraska, Rhode Island, South Dakota, Washington, Wisconsin. The aim is to hire young persons with accounting training who will make a career of the state service.

The second major group, 18 states, requires either a college degree with a specified number of hours of accountancy, or accounting experience, as specified. Some of these states, such as Maine, much prefer college graduates; others are unable to recruit many and primarily get persons with business experience--Minnesota, Nevada, for example. New Mexico, which did require a college degree, has moved away from this requirement. On the whole, however, there has been a trend toward greater stress on college work.

The final group requires both college and experience, making it impossible, usually, to recruit new college graduates, as many states prefer to do. This group includes Arizona, New Jersey (which will permit substitution of experience for college), Utah, Vermont, and Virginia. Several states, as for example Illinois and Michigan, do not require an examination if the requirements are met; others, such as Idaho, Wisconsin, and Mississippi, do.

Salaries of Auditors

Table 4a shows salary ranges of sales tax auditors in 1970, Table 4b, the ranges in 1981.

Exact comparison among states is impossible. Some states can hire above the beginning grade, whereas others cannot. The progress upward varies among states. For the beginning grade, over half the states pay initial salaries between $950 and $1150 per month; only 8 are below this, and 9 above.

TABLE 4a

SALARY LEVELS, SALES TAX AUDITORS, 1970*

State	Trainee	Beginning Level	Experienced Auditors	Senior Auditors	Supervisory Auditors
Alabama		627-806	686-865	746-927	
Arizona		636-774	746-929	808-1,006	1,090
Arkansas		523-736	583-861	583-861	686-1,015
California		710-821	863-1,100	1,048-1,337	1,155-1,882
Colorado		693			928
Connecticut	679-748	762-947	945-1,152	1,052-1,270	1,150-1,423
Florida		581-793	615-814	685-945	
Georgia		649-859	713-943	783-1,036	
Hawaii		643-996	744-1,153	801-1,336	949-1,624
Idaho		610		742	
Illinois		625-685	710-795	805-1,110	985-1,048
Indiana		420-525	480-600	600-720	660-1,110
Iowa		673-902	779-1,044	902-1,209	1,044-1,469
Kansas		574		714	
Kentucky		583-821	643-906	782-1,100	951-1,213
Louisiana		660-960	720-1,020	840-1,246	930-1,320
Maine		535-771	585-771	641-847	737-977
Maryland		604-794	635-873	731-961	805-1,057
Massachusetts		529	615-780	663-1,120	
Michigan		828-1,070	901-1,171	988-1,288	
Minnesota†		611-771	951-998	844-1,112	792-1,129
Mississippi		625-865	690-930	755-1,075	
Missouri		450		750	
Nebraska		575	592	825	950
Nevada		734	841	841	1,111
New Jersey		583			1,000
New Mexico	660-900	720-980	860-1,160	860-1,160	
New York	682-775	721-833		865-1,048	1,127-1,661
North Carolina		652-820	859-1,090	942-1,119	1,039-1,321
North Dakota		525		737	
Ohio		747-983	846-1,118	960-1,118	1,092-1,464
Oklahoma		520-685	650-810	725-950	
Pennsylvania		560-751	648-869	869-923	1,006-1,347
Rhode Island		630-754	695-832	962-1,150	
South Carolina		618-790	682-915	789-1,060	850-1,150
South Dakota		600		700	
Tennessee	500-620	650-790	755-900	825-980	
Texas		719		936	1,000-1,179
Utah		560	618	682	1,350
Vermont		745-1,014	795-1,090	899-1,221	
Virginia		700		911	
Washington		640-778	778-891	900-1,148	764-1,000
West Virginia		600	915	915	

Table 4b
Monthly Salary Levels, Sales Tax Auditors, 1981

ae	Trainee	Beginning	Experienced Lower	Experienced Upper	Senior	Supervising	Managemen
aama		1100-1330	1207-1500	1278-1626			
iona		1101-1450	1289-1693			1506-2047	
nsas	817-1255	927-1426	1077-1655			1237-1898	1390-214
lfornia		1132-1351	1482-1868	1782-2253	1958-2475	1958-2922	
rado		1103-1478	1277-1712	1478-1982	1798-2409	2081-2991	2294-307
necticut		1115-1347	1355-1613	1528-1850		1603-1947	
ida		945-1242	1058-1402	1187-1583	1342-1805		
gia	891-1279	1065-1538	1166-1689	1279-1853	1403-2029		
ii		987-			-1491		
ao		1065-1652	1295-1913	1428-2109	1650-2441		
lnois	977	1033-1521	1145-1689	1357-2283		1731-1949	
iana	1060-1365	1207-1541	1365-1740	1541-1974		2067-2763	
	970	970-1018	1158-	1374-1408	-1810	to 1988	
as		994-1252	1141-1432				
ucky	862	905-	951-	1155-		1338	
siana		1068-1579	1200-1885	1346-2031	1493-2164	1650-2480	1955-275
ie		957-1219	1030-1319	1212-1597		1395-1825	
rland		912-1272	1121-1584	1299-1706	1399-1838	1507-1980	1749-229
sachusetts							
cigan		1516-1830	1627-2042	1787-2233	1914-2404		
nesota		1227-1644	1366-1841	1470-1985		1583-2140	
sissippi	1000-1590	1100-1755	1210-1935	1330-2135	1470-2350		
souri		875-1234	926-1130	991-1229		1060-1371	
raska	990	1039-1102	1114-1169	1253-1315	1500	1412-1480	1589-250
da		1148-1577	1314-1813		1375-1898		
Jersey	999-1049	1158-1562	1339-1808	1550-2093		1709-2308	
Mexico		827-1164	958-1348	1056-1485	1221-1719	1282-1805	1348-189
York	1140-1223	1368-1606	1779-2070	2199-2540			
h Carolina	1075-1475	1409-1961	1545-2155			1699-2369	
h Dakota		930-1372	1024-1513			1372-2028	
i		1038-1428	1146-1570	1264-1726		1394-1993	2050-293
lhoma		835-1320	950-1515	1090-1750			
nsylvania		952-1218	1167-1447	1273-1651	1447-1880	1651-2139	
e Island		1142-1338	1338-1509	1445-1634	1879-2131		
h Carolina		968-1372	1273-1888	1324-1877	1490-2133		
h Dakota		1062-1592	1154-1744	1255-1910		1365-2093	
nessee		811-1128	1005-1318	1176-1517		1318-1676	
s		1122-1415	1281-1614	1462-1841	1725-2169	1841-2316	1966-247
a	1001-1461	1106-1616	1231-1799	1390-2029		1543-2251	1716-277
mont		1021-			1612	1150-1808	
ginia	916	963-1306	1044-1429			1094-1482	1250-17
hington	1058-1355	1355-1734		1571-2011	1734-2220	1914-2450	
t Virginia		1043-1692	1142-1858	1251-2041	1372-2242		
consin		1310-1808	1421-1989	1541-2158	1680-2352	1997-2795	
ming		1256			1980		

At the top salary of the senior levels, there is much more range, from $1300 to $2600; the distribution is as follows:

Under $1350	1
$1350-1550	6
$1550-1750	7
$1750-1950	7
$1950-2150	9
$2150-2350	6
$2350-2600	5

The distribution in 1970 was:

Under $750	5
$750-950	11
$950-1150	16
$1150-1350	8

California and North Carolina are the best paying states, Hawaii and Missouri by far the lowest. The median figure is between $1950 and $2050. The median in 1970 was between $950 and $1050. Thus on the whole the salary schedules have just kept pace with the price level and thus have fallen relative to many salaries.

The states, generally, in the last few years are able to fill the auditor positions they have; exceptions are New Jersey and Arizona. But a number of states indicate that they cannot get enough top quality persons. The best accountancy graduates go into public accounting or business accounting positions, while the next group, with some exceptions, select state revenue departments. The main limitation is that of salaries, which are typically below starting salaries for other accountancy positions. The 1980 average starting salary for graduates in accounting was $1,293.[1] Clearly the initial salaries paid by most of the states are not high enough to be competitive with private business. A number of the state tax administrators indicate that the salaries for auditors are far too low--for example, California (despite its relatively good salaries), Hawaii, Maine, Massachusetts, Nebraska, North Dakota, Virginia, and Vermont. In a number of states, work in state tax audit does not qualify for experience requirements for the

1. College Placement Council, CPC Salary Survey, July, 1980.

CPA (for example, Nevada, Kansas, North Dakota)--thus discouraging persons from entering state service. In other states (e.g., California, Idaho, Iowa, Mississippi, Nebraska, Wisconsin, among others) the experience does qualify and in some of these states most of the senior auditors are CPAs.

The shift toward functional organization and integrated audit staffs has made comparison of audit staffs between 1970 and 1981 and the relative adequacy of the audit staffs difficult. Some of the apparent increases in numbers reflect merely the fact that in 1970 only the number of sales tax auditors was listed, whereas in 1981 the total figure of all auditors must be used. For 29 states, however, either the sales tax audit staff is separate or a reasonable estimate can be made of total audit time going into sales tax audit, on the basis of figures applied by the states; the number of sales tax auditors is estimated on this basis.

While it is difficult to define the optimal number, and the optimal figure undoubtedly varies among states according to the complexity of audit, studies in various states suggest that one auditor per 1000 accounts may be regarded as a reasonable figure. Ten states meet this requirement: California, Illinois, Rhode Island, Tennessee, Texas, Utah, Vermont, Washington, West Virginia, and Wisconsin. Five additional ones are close (under 1250--Connecticut, Iowa, Nevada, Oklahoma, Virginia). At the other extreme, the number of accounts per auditor exceeds 2500 in Kansas, Minnesota, Nebraska, and Wyoming. The remainder of the states have figures between 1250 and 2500.

For the states for which figures are available, Idaho, Nebraska, Texas, South Dakota, Vermont, and Wyoming have made the greatest percentage increases in audit staffs since 1970, although some are still inadequate. By contrast, Kansas and Minnesota appeared to have experienced significant reductions in the size of the audit staffs.

Revenue officials of 15 of the states were asked whether they believed their audit staffs to be adequate. Eleven of these indicated that the numbers were inadequate--for example in both Minnesota and Wyoming that the number should be 2 to 3 times the present figure. Others indicating the need for an increase were Arizona, Idaho, Massachusetts, Mississippi, Nevada, the two Dakotas, and West Virginia. Rhode Island, which has good audit coverage, expressed the view that the numbers were adequate, and Vermont and Kansas that the staffs were approximately adequate. Only New Mexico indicated that the number for sales tax was excessive and some would be shifted to other taxes. The source of the inadequate numbers is primarily state budget officers and the state legislatures, which will not provide an adequate number of positions.

While the states are for the most part able to fill their positions, some have substantial turnover of audit personnel; persons are trained and then are lured away by higher salaries elsewhere. Among others, California, Illinois, Iowa, Maine, Missouri, Virginia, South Dakota, and Wisconsin complain of turnover, particularly of the most qualified personnel.

One of the most significant changes that has occurred in audit staffs is the increase in the number of women. Whereas women auditors were virtually unknown in 1960 and very limited in numbers in 1970, they are now found in most states. In a sample of 19 states in which the question was specifically asked, in all of these states there are women on the audit staff, or had been recently. In Nevada, for example, 3 of 18 field auditors are women. And despite the long reluctance to hire women, in all of these states the administrators reported that the women performed very well. A number of states also have women compliance personnel. At the time the interviews were conducted, two states--Louisiana and Vermont--have women

Table 5. Sales Tax Audit Staffs Relative to Number of Registered Vendors, 1981

te	Reported Number of Active Accounts		Reported Number of Auditors Total[1]		Figure of Auditors Adjusted for Allocation of Time		Number of Account per Auditor	
	1970	1981	1970	1981	1970	1981	1970	1981
bama	45,789	58,265	100	91	--	--	458	--
zona	53,500	75,000	30	41	30	41	1,783	1,829
ansas	47,000	56,561	20	113	20	--	2,350	--
ifornia	385,919	650,000	743	802	700	750[e]	551	866
orado	42,000	91,200	28	90	--	--	2,100	--
necticut	51,000	100,000	45	80	45	70[e]	1,135	1,429
rida	208,748	295,254	100	293	100	--	2,087	--
rgia	75,000	106,000	85	95	85	72	882	1,472
aii	50,000	60,000	45	45	40	--	1,250	--
ho	22,379	31,000	11	18	11	18	2,034	1,722
inois	177,539	164,297	234	331	187	216	949	761
iana	135,000	137,723	208	288	100	--	1,350	--
a	93,019	90,000	68	110	68	88	1,368	1,057
sas	53,000	75,493	20	13	18	13	2,944	5,807
tucky	66,705	76,820	50	100	25	--	2,667	--
isiana	60,000	78,000	60	108	30	--	2,000	--
ne	30,000	39,597	28	45	28	25	1,072	1,584
yland	50,000	91,802	85	65	85	65	589	1,412
sachusetts	120,000	129,656	45	83	45	83	2,667	1,562
higan	127,500	138,000	331	261	100	--	1,275[a]	--
nesota	90,180	105,000	125	100	63	40	722	2,625
sissippi	57,496	73,554	65	92	55	80	1,044	919
souri	78,526	100,020	80	95	80	--	981	--
raska	55,285	56,000	12	50	12	22	4,601	2,545
ada	13,000	20,500	22	18	22	18	591	1,139
Jersey	198,709	177,235	40	124	40	--	4,967	--
Mexico	36,000	75,927	50	40	45	--	800	--
York	430,000	450,358		1200	600[e]	--	716	--
th Carolina	95,461	450,358	115	147	86	--	1,110	--
th Dakota	19,732	26,000	10	15	10	15	1,973	1,731
o	211,000	240,832	309	126	175	126	1,206	1,91
ahoma	49,199	56,000	36	49	36	49	1,366	1,14
nsylvania	214,538	229,039	164	142	164	--	1,308	--
de Island	18,000	23,000	37	50	35	37	514	622
th Carolina	53,532	71,804	48	52	48	52	1,115	1,38
th Dakota	21,000	29,756	8	27	8	17	2,625	1,75
nessee	75,000	95,141	80	79	80	98	937	97
as	225,000	289,880	123	440	123	400	1,830	72
h	19,000	33,000	34	35	25	35	760	94
mont	11,841	20,880	12	25	9	20	1,316	1,044
ginia	73,423	80,000	74	104	74	80[e]	992	1,00
hington	62,000	136,000	114	187	75	100[e]	826	1,36
t Virginia	31,200	39,505	32	40	27	40	1,155	98
consin	87,050	108,000	217	144	33	60[e]	2,638	1,80
ming	15,000	28,073	2	14	2	10	7,500	
. of Columbia	13,700		12		9		1,529	
verall		3,085,809			3,935	2,740	1,047[b]	

1. Number of field auditors, including supervisory staff. 2. Total for sales tax when sales tax audit force is separate; overall total when not. e-estimate.

Directors of Revenue, and other states have had at times. A similar development has occured in the hiring of Blacks, long employed in some of the northern states, but resisted in many southern states no more than a decade ago. Now even Mississippi, for example, has Black auditors. Unfortunately the number of Blacks graduating with degrees in accountancy is very small.

An Examiner Class

Five states have established a third class of personnel, frequently called tax examiners, primarily for office audit and in some instances audit review, with qualifications less substantial than those of the auditors, per se.

State	Number	Title	Primary Function	Salary Range	Qualifications
Iowa	na	Examiner	Audit review	$884-1254	degree
Missouri	31	Audit analyst	Office audit	678-1332	some bookkeeping
New York	60	Tax technician	Office audit	870-2540	12 hrs accy
Washington	35	Excise tax examiner	Office audit	959-1734	degree or experience
Wisconsin	30	Tax examiner	Office audit	na	move up from clerical after study and exam

In almost all instances, a high percentage of these persons are women, in some states such as Wisconsin moving up from clerical positions. The general aim of this system is to save the time of field auditors from this type of work, using less well-trained and less expensive personnel for the purpose.

Training Programs

On the whole, for both compliance personnel and auditors, formal training programs are very limited. The typical pattern for auditors is to give the newly hired persons a one to three weeks indoctrination program in headquarters, with limited instruction in tax law, department organization procedures, and policies, etc., and then send them to the assigned district office for on the job training under the district supervisor or a senior auditor. At the end of the probation period, typically 6 months but in

some states a year, the decision is made whether or not to retain the person. The program for compliance personnel is similar but simpler. A few states send the persons almost directly to on the job training, and then bring them into headquarters for some formal training, in Indiana alternating with continued on the job training.

At the other extreme, California has a lengthy formal training program, given in Sacramento and in the major district offices, with classroom instruction in the tax structures, tax auditing, department procedures, etc. Arizona has a four months training program, the persons spending half time during this period in the training sessions, the other half on the job. The Texas system is similar, covering one year. Connecticut and Florida have formal training programs, the former six months in length. New Mexico provides formal training one day a week for 12 weeks, the other days spend on the job. New York alternates on the job and formal training over a two year period. Illinois provides four weeks classroom training before on the job work. Wisconsin gives four weeks of formal training, and then one year at desk audit before assignment to the field. South Dakota plans a 3 months formal training program.

One has the general reaction that training is not taken too seriously in many states. States hiring only one or a few auditors at any time cannot provide formal classroom training. Some of the larger states, however, might do better with more careful attention to formal training than they are now giving.

Supplementing the training of new compliance persons and auditors, a number of states provide periodic seminars, usually one or two days, for their field personnel to aid in updating information and bringing greater uniformity in practice. Others encourage employees who have limited background in accounting to take correspondence or extension courses.